3/4/88 RS650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 9A March 4, 1988

JAPAN AND THE MIDDLE EAST: ECONOMIC AND POLITICAL RELATIONS

Summary

Because Japan depends on the Middle East for almost 70 percent of its crude oil supplies, the security of the region is of critical importance to Tokyo. This report examines Japan's attempts to protect its economic and security concerns in the region and discusses the differences between its policies and those of the United States. It also analyzes the delicate balance that Tokyo has maintained between its relations with Arab countries and its desire to support U.S. foreign policy interests.

Introduction

Japan's historical and cultural relations with countries in the Middle East are weak. Although studies show some contacts dating from the 19th century, political ties between Japan and the Middle East have been tenuous. Most analysts, in fact, stress the newness of Tokyo's diplomatic initiatives in the region. Its role in the area has focused overwhelmingly on economic concerns -- especially oil. Japan depended very heavily on reasonably priced petroleum to build its postwar export economy; Miami University political scientist William Campbell even goes so far as to say that it is "clear that oil has made the Japanese miracle possible."[1] The singlemindedness with which Tokyo perceives its economic interests in the Middle East is shown even in its statements on cultural links between Japan and the region: "Many oil-producing countries in the Middle East are organized under a monarchy system and feel a sense of intimacy with the Japanese Imperial Household." (Emphasis added.)

[1]Campbell, William R., "Japan and the Middle East." Japan's Foreign Relations. Edited by Robert Ozaki and Walter Arnold. Boulder: Westview Press, 1985.

But not even interest in the region's oil supplies prompted strong diplomatic measures in the immediate postwar period. Japanese refineries initially contracted with international oil companies for Middle Eastern oil deliveries. This system worked well in the 1950s and 1960s since it allowed industry to develop without Tokyo becoming embroiled in diplomatic and political problems.

Tokyo derived some lasting benefits from this hands-off policy. Since it had no colonial or military ties to the region, Middle Eastern countries harbored no resentment for past disagreements. As a result, Japan continues to be viewed as a formidable economic power, one that would provide a good model for development, but as a negligible military and secondary political influence in any given country.

From Tokyo's perspective this is just fine. Because it has been successful in maintaining strong diplomatic ties with many countries in the region, Tokyo is in the unusual position of being able to act as a go-between in regional disputes. By contrast, the past policies of the United States, the Soviet Union and several European countries preclude any opportunity for them to act as neutral intermediaries.

All good things must come to an end, however, including Tokyo's ability to maintain a healthy trade relationship with Arab oil producers while avoiding political involvement. After the 1973 Arab-Israeli war and the formation of the Organization of Petroleum Exporting Countries, Japan and other oil importers were faced with the threat of an Arab oil embargo if their foreign policy was not deemed "friendly" to the Arab cause. For the first time Tokyo was forced to evaluate its political goals and strategies in the Middle East. Its reluctance to do so is highlighted in the 1982 Diplomatic Bluebook, which noted that ". . . Middle Eastern countries have recently been placing greater expectations on Japan. As a result, Japan, whether it wished or not, has begun to attract attention from the Middle East countries not only in the field of economy but also in politics."

Tokyo responded to these "greater expectations" by focusing its attention much more closely on the region. Official visits to the Middle East increased. Tokyo sent a special envoy to several Arab countries in 1973 to establish friendly relations and to facilitate continued large petroleum sales to Japan. Moreover, in 1978 Takeo Fukuda became the first Japanese prime minister to visit the region, traveling to Iran, Qatar, Saudi Arabia and the United Arab Emirates -- all important suppliers of oil to Japanese companies.

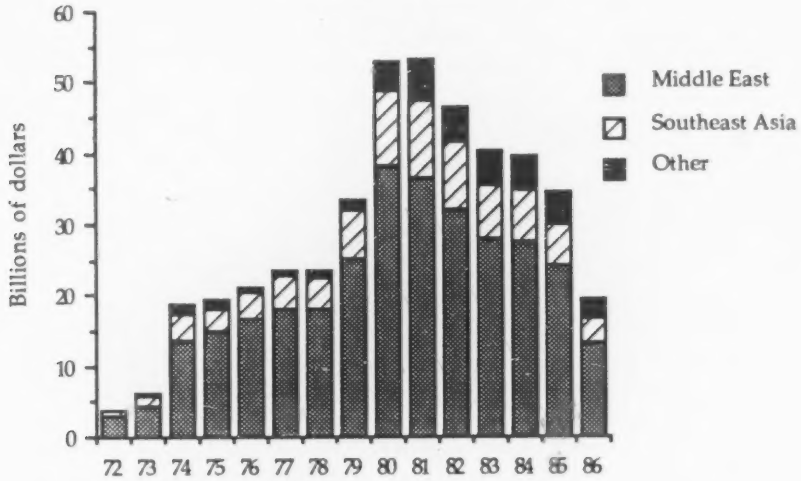
The Importance of the Middle East to Japan

Oil accounts for roughly half of Japan's energy supplies. Consequently, it is difficult to overstate the importance of Middle Eastern oil to Japan's economy. Japan imported $13.4 billion worth of crude oil from the region in 1986. Its suppliers included the United Arab Emirates, Saudi Arabia, Oman, Iran, Qatar, Iraq and Kuwait (in descending order of importance). These purchases accounted for approximately 69 percent of total imports of crude oil,

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

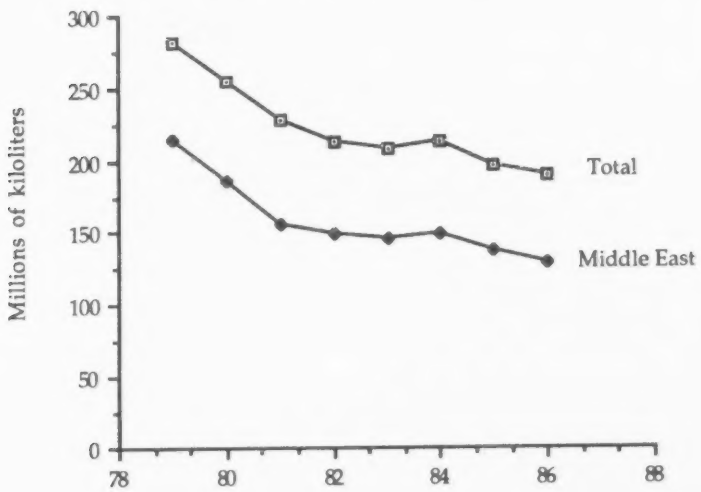
down from 1978 when the figure was over 78 percent. Still, the preeminence of the region as a supplier of energy resources to Japan is self-evident (see Figure 1).

Figure 1: Japan's Imports of Crude Oil
By Region, 1972-86



Since the oil crises of the 1970s, Japan has been attempting to diversify its energy resources and its reliance on oil has decreased steadily during this decade. Japan imported 189 million kiloliters of oil in 1986 as opposed to 281 million kiloliters in 1979 (see Figure 2).

Figure 2: Japan's Oil Imports, 1979-86



But the Middle East is of great importance to Japan in another way as well. Security concerns are receiving increasing attention as tensions mount in the Persian Gulf and between Israel and the Arab countries. Not only does Tokyo worry that instability in oil-producing countries could disrupt petroleum production, but it also must contend with possible shipping difficulties. The vast majority of Japan's Middle Eastern oil supplies must flow through the Persian Gulf and the Strait of Hormuz.

Because of its dependence on the region for petroleum, Japan is more vulnerable to the economic consequences of Persian Gulf tensions than countries that have other sources of supply. Fears of Soviet control of the Gulf or increased violence in the region mean that Japan has a vital stake in contributing to stability there and is willing to work for regional peace through non-military means.

The Arab-Israeli Conflict

In 1973 when OPEC threatened to cut off oil supplies to those countries that were unfriendly to the Arab cause, Tokyo found itself in an immediate dilemma. On one hand, it needed to secure deliveries of oil to protect the very foundation of its economy. On the other hand, Japan was sensitive to the United States' firm friendship with Israel. Tokyo's position was all but a no-win situation.

The government finally decided to tread a very narrow line between the two positions; it did embrace a pro-Arab policy but refused to sever diplomatic ties with Israel. Tokyo issued a statement in November 1973 that supported self-determination for the Palestinians and called for Israel's withdrawal from the territories it had occupied in the 1967 war. Its pro-Arab stance was perhaps most evident in the concluding sentence of the statement: "The government of Japan will continue to observe the situtation in the Middle East with grave concern and, depending on future developments, may have to reconsider its policy toward Israel."

By all appearances the strategy worked. Arab suppliers accorded Japan "friendly nation" status and allowed Japanese firms to continue purchasing oil. With the advantage of hindsight, however, several analysts have questioned whether Japan's policy was as successful as it originally appeared. For example, although petroleum was available to Japan, it was at a premium. Moreover, its position did not appear to give Japan much more political influence with the Arab states.

Tokyo has also been criticized for formulating its policy solely on economic grounds. As a growing economic and diplomatic power, say critics, Japan should have focused on a combination of economic, political and diplomatic goals rather than on energy concerns. Complaints continue even today about the private sector's position on the Arab-Israeli question. Press reports surface in the United States from time to time charging that Japanese firms are complying with Arab demands that its trading partners boycott the Israeli market.

Tokyo has fought back with a message of its own: U.S. policy in the Middle East is too one-sided to be effective. The government argues that Washington does not pay enough attention to the issue of Palestinian rights. This is not to say, however, that Tokyo has actively attempted to persuade the

United States to change its policy. Rather, it would like to maintain a sort of balance between Arab and U.S. interests -- minimizing tensions rather than pushing for major changes in U.S.-Arab relations.

Washington would like to see Japan maintain an even lower profile on the Arab-Israeli question, but again, this poses a dilemma for Japan. As one official argues in Michael Yoshitsu's 1984 book, Caught in the Middle East:

> "The U.S. has [consistently] told us not to do or say anything with regard to Mideast peace, arguing that [such statements or actions] would put it in a difficult position. Certainly, we feel that the role that Japan can play is quite limited and that America . . . not Israel . . . holds the key to Mideast peace. We would of course be happy to leave the problem if, apart from a few minor differences, we judged U.S. policy to be correct. But we feel that U.S. policy is incorrect. . . . And so we are at a loss when told to do nothing about a region that is crucial for Japan."[2]

Japanese officials also believe that the United States' approach in the region is too confrontational. They worry that Washington overemphasizes military responses to tensions -- a risky strategy, they believe, especially in view of the debacles in Iran and Lebanon. Moreover, officials have argued that Washington focuses too much on Israel's concerns, thereby leaving little room for flexibility in responding to regional disputes.

What, then, is Japan's position on the Middle East peace process? Tokyo begins by avowing its support for United Nations Security Council Resolution 242, which supports the rights of all Middle Eastern countries to exist in peace, calls for Israel's withdrawal from occupied territories and a "just settlement of the refugee problem." In fact, the government takes credit for helping to "coordinate international opinion" with regard to the resolution since it was adopted when Japan chaired the Security Council.

In addition, Tokyo supports "the legitimate rights of the Palestinian people in accordance with the U.N. charter," and has accepted the Palestine Liberation Organization as a spokesman for the Palestinians. Officials stress, though, that they do not recognize the PLO as the Palestinians' sole representative. In 1977 the PLO was allowed to establish an office in Tokyo. The office has not been given full diplomatic status, however, since officials feared that such a move would imply recognition of the PLO as the official spokesman for the Palestinians. Similarly, PLO leader Yassir Arafat was able to visit Tokyo in 1981. Although the visit was unofficial (having been sponsored by the Japan-Palestine Friendship Commission), Mr. Arafat met unofficially with Prime Minister Zenko Suzuki and Foreign Minister Sunao Sonoda. Tokyo has used its ties with the PLO both to highlight its support for Palestinian rights and to urge PLO leaders to formally recognize Israel's right to exist. Without the latter concession, Japanese officials say, it will be impossible for both sides to exist in peace as set forth in Resolution 242.

[2]Yoshitsu, Michael M., Caught in the Middle East. Toronto: Lexington Books, 1984.

The Iran-Iraq War

During the 1979 Iran hostage crisis, Japan again felt it necessary to stake out a different strategy than Washington's. Iran was a major supplier of oil to Japan as well as host to a multibillion-dollar Japanese petrochemical venture. Initially, Tokyo declined to take a position on the issue, saying that the conflict was a problem between two of its friends -- apparently hoping that the situation would resolve itself relatively quickly.

But pressures from Washington made this position untenable. U.S. officials reacted furiously to reports that Japanese companies had purchased Iranian oil that U.S. firms were boycotting, and at nearly double the posted price. When the severity of the crisis became apparent, Tokyo decided to reconsider its position and joined the European Community in implementing a series of economic measures against Iran that were to last for over a year.

When the crisis was finally resolved, Tokyo wasted no time in removing the measures and taking steps to establish friendly relations with the new Iranian government. The first test of these fragile ties was an Iranian request that Japan continue work on the Iran-Japan Petrochemical Co., a joint venture between Iran and a group of over 100 Japanese companies and banks led by Mitsui & Co., Ltd. Because Tokyo felt that a refusal would reflect badly on its reliability, the project continued.

Even when the Iran-Iraq war broke out in late 1980, Tokyo felt it would be an unwise diplomatic move if Japanese investors pulled out of the venture. As a result it persuaded a reluctant Mitsui to continue. The results have been unfortunate. Iraqi forces have bombed the installation repeatedly and have threatened to do so again if Mitsui undertakes any repairs. At present, work is stalled. Mitsui has demanded some payment for its work on the project to date, but Tehran insists that the project be resumed first.

Although the petrochemical plant is the most tangible evidence of Japan's stake in the Iran-Iraq war, it is by no means the only factor -- nor even the most important. Any tension in the Persian Gulf poses a threat to the safe transport of Japanese oil purchases. From Tokyo's perspective, Soviet control of the Gulf would be disastrous. Another factor that is not lost on Japanese officials concerns East Asian security. As some observers have pointed out, U.S. preoccupation with the Middle East means less attention to the Pacific Basin. Similarly, forces and supplies committed to that region are unavailable for use in protecting East Asia. While this concern may not pose as dramatic a threat as does the Gulf war and the threat of Soviet influence in the Middle East, it nonetheless has implications for Japanese security concerns.

Consequently, Tokyo has undertaken a series of measures to promote peace between Iran and Iraq. Officials believe that Japan is singularly well-equipped for this role since Tokyo has maintained relatively good relations with both Tehran and Baghdad. In 1983 Foreign Minister Shintaro Abe visited both countries to advocate peace and pledge Japan's help in postwar economic reconstruction. The next year Tokyo hosted visits by the Iranian and Iraqi foreign ministers. Separate contacts such as these have continued to the present.

Tokyo is extremely conservative in characterizing its role in the peace process, saying that its "diplomatic efforts are not intended as mediation or

arbitration but are rather directed toward preventing escalation and creating a climate conducive to an early settlement." In this regard, observers have called Japan a "message carrier" rather than a mediator. Japanese officials also stress the part that the United Nations is playing in the peace efforts. They are especially hopeful about UN Resolution 598, which calls for a cease-fire between the two countries.

It is primarily because diplomatic efforts are ongoing -- both by the Japanese government and in the United Nations -- that Tokyo declined in October 1987 to join a U.S. trade embargo against Iran in response to Tehran's support of terrorism and acts of military aggression against non-belligerent vessels in the Persian Gulf. Japan's Vice Foreign Minister Ryohei Murata explained Tokyo's position by saying that "Japan understands the circumstances that led the United States to impose the economic sanctions. However, Japan finds it difficult to take similar measures." Officials go on to argue that sanctions are premature as long as there is a continuing effort to find a peaceful solution to the war. They also point out that although no noticeable policy change has occurred in Iran, Japanese arguments have been received as coming in a "spirit of friendliness."

Tokyo reportedly did agree, however, to urge the Japanese business community to hold down purchases of Iranian oil. In 1986 Japan's imports from Iran, which consist almost exclusively of crude oil, came to $1.4 billion. This represented about 7 percent of Japan's oil imports (in volume terms) and roughly 20 percent of Iran's total exports. The Foreign Ministry stresses that Japan is less dependent on Iranian oil than American policymakers believe and that diplomatic rather than economic considerations prompted its decision not to participate in the embargo.

When the U.S. embargo was announced, Japan had already decided that it would provide financial assistance to support free navigation in the Persian Gulf. Its four-point plan includes installation of a British-made precision navigation system; a $10 million contribution to UN peace efforts; additional economic aid for the region; and increased funds for American military bases in Japan.

The initiative has given Tokyo some breathing space by satisfying U.S. demands without endangering Japan's relationship with Iran. Former Defense Secretary Caspar Weinberger called the initiative "a fine first step toward a meaningful Japanese contribution." Tehran, for its part, accepted it as "non-hostile" -- although two Japanese oil tankers were hit by Iranian fire a few days after the announcement of the plan. Nonetheless, Washington has made little secret of its desire to see Tokyo contribute even more to stability in the Gulf, and it is not unlikely that it will make more demands on Japan in the future. The Reagan administration feels it has this right since Japan is a major beneficiary of the American commitment to protect reflagged Kuwaiti tankers.

Trade and Investment

If Japan's political involvement in the Middle East is on the rise, the same cannot be said for trade. Exports to oil-producing countries in the region have dropped steadily during the past several years, due in large part to the sharp decline in oil prices. As the foreign reserves of Middle Eastern

countries continue to contract, so does the market for Japanese goods. Furthermore, violence in the region has persuaded Japanese businesses to look elsewhere for sales -- for example, the United States (see Table).

Japan's Exports to Middle East Oil-Exporting Countries and the United States, 1982-86

(in millions of dollars, f.o.b. value basis)

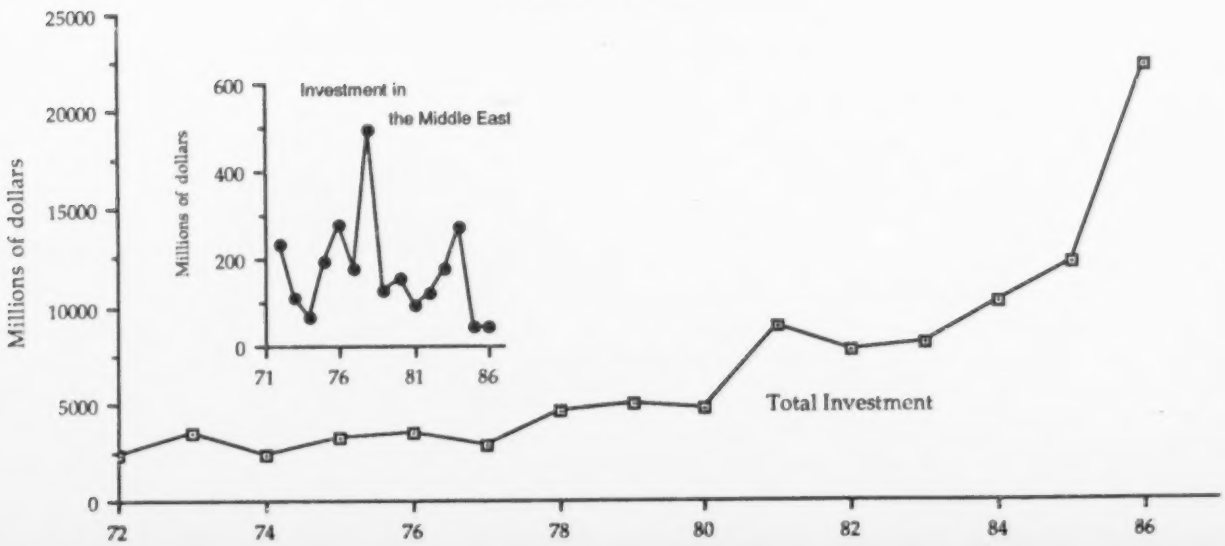
Country	1982	1983	1984	1985	1986
Iran	$934	$2,820	$1,692	$1,348	$1,144
Iraq	2,755	631	806	1,306	1,211
Kuwait	1,790	1,763	1,432	1,536	1,219
Saudi Arabia	6,621	6,687	5,634	3,890	2,762
United Arab Emirates	1,493	1,357	1,126	1,164	1,032
Total	13,593	13,258	10,690	9,244	7,368
Percent of total exports	9.8%	9.0%	6.3%	5.3%	3.5%
United States	36,330	42,829	59,937	65,278	80,462
Percent of total exports	26.2%	29.1%	35.2%	37.2%	38.5%

Source: Japan Tariff Association

Similarly, direct investment in the region, not extensive to begin with, has contracted, falling from $273 million in FY 1984 to only $44 million in FY 1986 -- an 84 percent drop (see Figure 3). This was only 0.2 percent of Japan's total foreign direct investment in FY 1986, down from levels of 10 percent in FY 1972 and almost 11 percent in FY 1978. As long as the investment climate remains unstable, there is unlikely to be a resurgence of Japanese ventures in the region. The plight of the Iran-Japan Petrochemical Co. looms too large in the minds of Japanese investors.

Figure 3: Japan's Foreign Direct Investment

FY 1972 - FY 1986

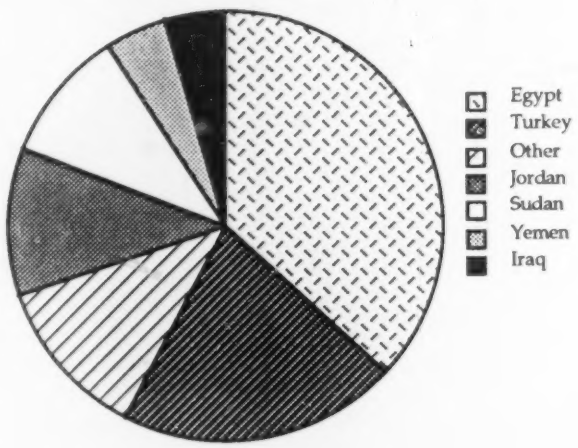


Economic Cooperation

Tokyo has embraced foreign aid as one of the primary means that it can use to contribute to stability in the Middle East. Working on the premise that political stability is impossible without economic security, Japan has pumped approximately 9 to 10 percent of its annual official development assistance disbursements into the region. It has focused on key moderate countries such as Egypt, which received $126 million in 1986, making it the tenth-largest recipient of Japan's ODA. Tokyo also gives aid to countries that border unstable areas. For example, Pakistan received $152 million in 1986 -- making it the eighth-largest recipient -- largely because of its precarious border with Soviet-occupied Afghanistan. In total the Middle East received $340 million from Japan in 1986 (see Figure 4).

Figure 4: Major Recipients of Japan's Aid

to the Middle East, 1986



While Japan's aid does not come close to the amount spent by the United States, it serves a slightly different purpose. Tokyo will not provide military assistance of any kind; it will, however, increase economic assistance to countries that are important to the Western alliance. Consequently, Jordan and Turkey receive healthy amounts of aid. Japan is also willing to use economic assistance to preserve friendly relations with important oil suppliers; Saudi Arabia, for example, received $13.5 million in 1986. It tries as well to satisfy both Western strategic concerns and Middle Eastern development requests by disbursing aid for specific situations -- such as disaster relief funds for Lebanon.

In this regard, differences between the policies of the United States and Japan regarding the Middle East may be somewhat overstated. The general strategies of Tokyo and Washington are the same, and in fact, Japan uses its economic assistance to support U.S. goals in the region. Furthermore, Tokyo is extremely open to U.S. suggestions about possible aid recipients. Certainly it is true that the Middle East represents the first real challenge by Japan to

some aspects of U.S. foreign policy leadership. Nonetheless, the similarities of their policies outweigh the differences. Both countries want to limit Soviet influence in the region and both hope to see the establishment of a lasting peace. In sum, Japan remains willing to let Washington take the lead in shaping the broad outlines of Middle East policy.

Tokyo's future aid policies regarding the Middle East are rather uncertain at present. Although it has given a great deal of thought to regional aid policies in the past few years and has outlined specific strategies for developing countries in Asia, Latin America and Africa, it still appears to lack a coherent aid philosophy for the Middle East. Moreover, in recent years proportionally more aid has gone to sub-Saharan African countries than to those in the Middle East or Latin America.

Part of the reason for this is that high per-capita incomes in the latter two regions pose eligibility obstacles under the Organization for Economic Cooperation and Development's aid guidelines. Another reason is that Tokyo believes that ODA is most appropriate for the poorest LDCs, such as those in Africa. It has been attempting to devise other ways to respond to the needs of middle-income countries, though, and announced in early 1987 that it would recycle $20 billion of its current account surplus to debtor countries in Latin America and Asia. Thus far it has not crafted a specific response for the Middle East.

Nonetheless, because of the region's oil and strategic situation, Tokyo is certain to continue pumping economic assistance into the Middle East. And the criteria for the recipients is also likely to remain the same: ODA will go primarily to strategically important countries and to countries that are important to Japan's economic interests.

Conclusion

It is no understatement to conclude that the Middle East is absolutely vital to Japan's economic and political well-being. In economic terms Japan's dependence may decline as electric power companies look to new sources of energy and manufacturers seek out new export markets. But as long as Japan depends on Middle Eastern producers for the majority of its oil supplies, security concerns about the region will not abate. Even if Japan does diversify its energy supplies so that it can survive without Middle Eastern oil, both the threat of Soviet control as well as Tokyo's awareness of its responsibilities as a member of the Western alliance will insure that Japan continues to watch the Middle East with concern.

For further information, contact Eileen M. Doherty.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.